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Nos. 87-712 and 87-929

IN THE SUPREME COURT OF THE UNITED STATES
October Term, 1987

OTIS R. BOWEN,
SECRETARY OF HEALTH AND HUMAN
SERVICES, et al., Petitioners
v.
COMMONWEALTH OF MASSACHUSETTS

COMMONWEALTH OF MASSACHUSETTS,
Cross-Petitioner
v.
OTIS R. BOWEN,
SECRETARY OF HEALTH AND HUMAN
SERVICES, ET AL.

ON WRITS OF CERTIORARI
TO THE UNITED STATES
COURT OF APPEALS FOR THE FIRST CIRCUIT

BRIEF FOR THE COMMONWEALTH OF MASSACHUSETTS, RESPONDENT/ CROSS-PETITIONER

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QUESTION PRESENTED

Whether the United States District Court has authority under 28 U.S.C. § 1331, and 5 U.S.C. § 702, to review a decision by the Secretary of Health and Human Services to deny reimbursement under the Medicaid Act for the federal share of services provided by Massachusetts to its mentally retarded citizens.

TABLE OF CONTENTS

	PAGE
STATEMENT OF THE CASE	
Introduction	1
The Medicaid Act	4
The Massachusetts Disallowance	10
Prior Judicial Proceedings	14
SUMMARY OF ARGUMENT	21
ARGUMENT	
I. DISTRICT COURT REVIEW OF THE FINAL DECISION OF THE SECRETARY TO DENY MEDICAID REIMBURSEMENT IS AUTHORIZED BY THE ADMINISTRATIVE PROCEDURE ACT.	32
A. The Nature of this Case and the Decision of the Secretary to be Reviewed Support District Court Jurisdiction.	32

PAGE

B. The APA's Broad Waiver of Sovereign Immunity Encompasses the Commonwealth's Complaint for Judicial Review. 48

1. Section 702 Waives Sovereign Immunity for a Broad Range of Agency Action Including Grant Disallowances. 48

2. The Common-wealth's Case is for Judicial Review, Not "Money Damages." 59

3. The Tucker Act Does Not Create an "Adequate Remedy" in the Claims Court that Bars District Court Review. 69

C. The Social Security Act and the Federal Courts Improvement Act Support District Court Review of Grant Disallowances. 78

PAGE

II. THE TUCKER ACT DOES NOT DEPRIVE THE DISTRICT COURT OF JURISDICTION OF THIS CASE. 94

A. The Tucker Act Does Not Confer Jurisdiction on the Claims Court Over This Case. 94

B. Even if the Tucker Act Applies to Some Portion of this Case, It Does Not Deprive the District Court of Jurisdiction. 100

CONCLUSION 105

TABLE OF AUTHORITIES

Cases	PAGE
Abbott Laboratories v. Gardner, 387 U.S. 136 (1967)	49, 50
County of Alameda v. Weinberger, 520 F. 2d 344 (9th Cir. 1975)	51, 53, 103
Amoco v. Hodel, 815 F. 2d 352 (1987)	45
Bell v. New Jersey, 461 U.S. 773 (1983)	51, 84n
Bennett v. Kentucky Dept. of Education, 470 U.S. 656 (1985)	34, 39, 66
Block v. Community Nutrition Institute, 467 U.S. 340 (1984)	32, 49, 90
Bowen v. Michigan Academy of Family Physicians, 476 U.S. 667 (1986)	50
School Committee of the Town of Burlington v. Department of Education, 471 U.S. 359 (1985)	63n, 93n
Califano v. Sanders, 430 U.S. 99 (1977)	48

	PAGE
Colorado Dept. of Social Services v. HHS, 558 F. Supp. 337 (D. Colo. 1983), aff'd 771 F. 2d 1422 (10th Cir. 1985)	52
Connecticut v. Schweiker, 557 F. Supp. 1077 (D. Conn. 1983), rev'd, 731 F. 2d 1052 (2d Cir. 1984), aff'd, Connecticut Department of Income Maintenance v. Heckler, 471 U.S. 524 (1985)	5, 17n, 37, 52
Delaware Div. of Health v. U.S. Dept. of Health and Human Services, 665 F. Supp. 1104 (D. Del. 1987)	54, 98
Dermott Special School District v. Gardner, 278 F. Supp. 687 (E.D. Ark. 1968)	57n
Director, Office of Worker's Compensation v. Perin North River Associates, 459 U.S. 297 (1983)	90
Duke Power Co. v. Carolina Environment Study Group, 438 U.S. 59 (1978).	104n
Eastport S.S. Corp. v. U.S., 372 F. 2d 1002 (Ct. Cl. 1967)	97n
Ernst & Ernst v. Hochfelder, 425 U.S. 185 (1976)	62n
Feres v. United States, 340 U.S. 135 (1950)	78

	PAGE
State of Georgia v. Califano, 446 F. Supp. 404 (N.D. Ga. 1977)	53
Grimesy v. McMahon, No. 87-1228 (pending in Federal Circuit)	92n
Hahn v. United States, 757 F. 2d 581 (3d Cir. 1985)	103n
Hambsch v. United States, 12 Cl. Ct. 744 (1987)	97n
Harris v. McRae, 448 U.S. 297 (1980)	5, 99
Hendrick Hudson District Board of Education v. Rowley, 458 U.S. 176 (1982)	93n
Illinois v. Schweiker, 707 F. 2d 273 (7th Cir. 1983)	9n, 52
Kelly v. Robinson, No. 85-1033 (November 12, 1986)	62n
Lee v. Thornton, 420 U.S. 139 (1975)	75
Lee County Special School Dist. No. 1 v. Gardner, 263 F. Supp. 26 (D.S.C. 1967)	57n
Ludecke v. Watkins, 335 U.S. 160 (1948)	90

	PAGE
Maryland v. Dept. of Health and Human Services, 763 F. 2d 1441 (D.C. Cir. 1985)	54, 68n, 95, 98
Commonwealth of Massachusetts v. Dept. Grant Appeals Board, 815 F. 2d 778 (1987)	67, 71
Massachusetts v. Heckler, 576 F. Supp. 1565 (D. Mass.), rev'd on other grounds, 749 F. 2d 89 (1st. Cir. 1984), cert. denied, 472 U.S. 1017 (1985)	17n
Massachusetts v. Grant Appeals Board, 698 F. 2d 22 (1st. Cir. 1983)	8, 9n, 17n, 83
Megapulse, Inc. v. Lewis, 672 F. 2d 959 (D.C. Cir. 1982)	45
Michigan v. Secretary of Health and Human Services, 563 F. Supp. 797 (W.D. Mich. 1983), aff'd, 744 F. 2d 32 (6th Cir. 1984)	53
Minnesota v. Heckler, 718 F. 2d 852 (8th Cir. 1983)	53n
Murray v. U.S., 817 F. 2d 1580 (Fed. Cir. 1987)	97n
New Jersey v. Dept. of HHS, 670 F. 2d 1284 (3d Cir. 1982)	9n
State of Ohio v. Dept. of HHS, 761 F. 2d 1187 (6th Cir. 1987)	82

PAGE

Oregon Department of Human Resources v. Dept. of Health and Human Services, 727 F. 2d 1411 (9th Cir. 1983) 53

Pennhurst State School & Hospital v. Halderman, 451 U.S. 1 (1978) 84n

Richardson v. Morris, 409 U.S. 464 (1973) 57n, 73

Schweiker v. Gray Panthers, 453 U.S. 34 (1981) 79, 92

Smith v. United States, 654 F. 2d 50 (Ct. Cl. 1981) 76

Spectrum Leasing Corp. v. United States, 764 F. 2d 891 (D.C. Cir. 1985) 45, 73

United States v. Hohri, No. 86-510 (June 1, 1987) 88n, 91

United States v. King, 395 U.S. 1 (1969) 73, 97

United States v. Mitchell, 463 U.S. 206 (1983) 97, 98

United States v. Mottaz, 476 U.S. 834 (1986) 33, 98

United States v. Testan, 424 U.S. 392 (1976) 96, 97

PAGE

Virginia v. Bowen, No. 84-1171-R (W.D. Va. February 3, 1988) 54

Constitutional Provisions

U.S. Constitution:

Art. I 74n

Art. III 84n

Statutes and Regulations

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

5 U.S.C. § 701(a) 49, 50
5 U.S.C. § 702 passim
5 U.S.C. § 702(2) 101, 102, 103
5 U.S.C. § 703 14
5 U.S.C. § 704 passim
5 U.S.C. § 706 passim

Education for All Handicapped Children Act, 20 U.S.C. §§ 1401 et seq. 93n

Elementary and Secondary Education Act of 1965 51

Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 26, 72n, 85, 86

Federal Grant and Cooperative Agreement Act, P.L. 95-224 39n

PAGE

Social Security Act, 42 U.S.C. §§ 301 et seq.

Tit. II, 42 U.S.C. §§ 401 et seq.:

42 U.S.C. § 405(g) 81

Tit. XI, 42 U.S.C. § 1301 et seq.:

42 U.S.C. § 1316 7

42 U.S.C. § 1316(a)(3) 8, 82

42 U.S.C. § 1316(d) 8, 51

Tit. XVIII, 42 U.S.C. §§ 1395 et seq.:

42 U.S.C. § 1395oo(f) 81

Tit. XIX, 42 U.S.C. §§ 1396-1396q 4

42 U.S.C. § 1396 4, 5, 99

42 U.S.C. § 1396a(a) 6

42 U.S.C. § 1396b 6

42 U.S.C. § 1396b(1) 6

42 U.S.C. § 1396b(d) 65

42 U.S.C. § 1396(d) 40

42 U.S.C. § 1396c 7, 81

42 U.S.C. § 1396d(b) 7n

PAGE

Tit. XX, 42 U.S.C. §§ 1397 et seq. 80

Tucker Act:

28 U.S.C. § 1346(a)(2) 2
28 U.S.C. § 1491 passim
28 U.S.C. § 1491(a)(2) 76
28 U.S.C. § 1491(a)(3) 76n

Pub. L. No. 92-415, 86 Stat. 652 (1972) 74

Pub. L. No. 94-574, 90 Stat. 2721 (1976) 55

Pub. L. No. 95-224, 92 Stat. 3 (1974) 39n

28 U.S.C. § 1331 3, 14, 51, 55, 57

28 U.S.C. § 1295(a)(2) 88n

28 U.S.C. § 1295(a)(3) 72n

42 C.F.R. § 441.13(b) 12

45 C.F.R. § 201.3 82n

45 C.F.R. § 201.4 83n

45 C.F.R. § 201.7 83n

PAGE

Miscellaneous

Administrative Procedure Act: Legislative History, S. Doc. 248, 79th Cong. 2d Sess. (1946) 71

2 R. Capalli, Federal Grants and Cooperative Agreements (1982) 40

Collateral Relief in the Court of Claims: Hearings on H.R. 12392 Before Subcomm. No. 2 of the House Comm. on the Judiciary, 92d Cong., 2d. Sess. (1972) 75n

121 Cong. Rec. 29,995 (1975) 64

K. Davis, Administrative Law, (2d ed. 1983) 51

K. Davis, Administrative Law Treatise (Supp. 1982) 58

Federal Courts Improvement Act of 1981: Hearings on S. 21 Before the Subcomm. on Courts of the Senate Comm. on the Judiciary, 94th Cong., 1st. Sess. (1981) 86n

H.R. Rep. 92-1023, 92d Cong., 2d Sess. (1972) 74n, 75

H.R. Rep. 94-1656, 94th Cong., 2d Sess. (1976) 55, 56, 65, 102

PAGE

H.R. Rep. 97-312, 97th Cong., 1st Sess. (1981) 86n

S. 1704, 90th Cong., 2d Sess. (1968) 74n

S. Rep. 1465, 90th Cong., 2d Sess (1968) 74n

S. Rep. 92-1066, 92d Cong., 2d Sess. (1972) 74n, 75

S. Rep. 93-1239, 93d Cong., 2d Sess. (1974) 39n

S. Rep. 94-996, 94th Cong., 2d Sess. (1976) 55, 56, 58

S. Rep. 96-304, 96th Cong., 88

S. Rep. 97-275, 97th Cong., 1st Sess. (1981) 86n, 87, 88, 89n

Sovereign Immunity: Hearing on S. 3568 Before the Subcomm. on Admin. Practice and Procedure of the Senate Comm. on the Judiciary, 91st. Cong., 2d Sess. (1970) 64

1987 Statistical Abstract of the United States 39

C. Wright, Law of the Federal Courts (3d ed. 1976) 51

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STATEMENT OF THE CASE

Introduction

The Commonwealth of Massachusetts challenges two adjudicatory decisions of the Secretary of Health and Human Services which "disallowed" reimbursement under the Medicaid Act for medical and rehabilitative services provided to mentally retarded persons. The Commonwealth sought judicial review of those decisions in the customary forum, the United States District Court, pursuant to 5 U.S.C. § 702 and 706. That court reviewed the administrative record under familiar standards, determined that the Secretary had misinterpreted the Medicaid Act, and "reversed." Pet. App. 32a. The court of appeals upheld the district court's interpretation of the Medicaid Act. The Secretary, however, departing from settled interpretations of the statutes governing judicial review of his decisions, and from his own previous representations to federal courts throughout the country, argued on appeal that the district court lacked jurisdiction over the case.

The court of appeals affirmed the district court's jurisdiction to review the disallowance and to grant related injunctive and declaratory relief as to the "prospective" and "ongoing" relationship between the Commonwealth and the Secretary. But the court of appeals also opined that, under the Tucker Act, 28 U.S.C. §§ 1346(a)(2) and 1491, only the

United States Claims Court would have jurisdiction to order the Secretary to reimburse Massachusetts for past services. Thus, the court advised that if the Secretary should fail to provide reimbursement in the wake of its ruling on the merits, Massachusetts' recourse would be in the Claims Court.

Massachusetts maintains that under 28 U.S.C. § 1331 and 5 U.S.C § 702, Congress designated the district court as the forum for judicial review of final agency action such as the decision of the Secretary in this case. We will meet the Secretary's novel reading of the relevant statutes and their legislative histories on their merits. The fundamental point is that the Secretary's highly technical approach should not be

permitted to obscure the essence of the Commonwealth's complaint. That complaint is nothing more or less than a petition for judicial review of an agency decision, over which Congress conferred jurisdiction in the district court.

The Medicaid Act

Congress created the Medicaid program in 1965 as Title XIX of the Social Security Act, 42 U.S.C. §§ 1396-1396q. See 79 Stat. 343 (the Medicaid Act). The purpose of the Medicaid Act is to encourage and assist the States to provide health care for their needy, aged, disabled and dependent citizens. 42 U.S.C. § 1396; Connecticut Department of Income

Maintenance v. Heckler, 471 U.S. 524, 528-9 (1985). The Court has described the Medicaid program as "a cooperative endeavor in which the Federal Government provides financial assistance to participating states to aid them in furnishing health care to needy persons." Harris v. McRae, 448 U.S. 297, 308 (1980). The program is one of "cooperative federalism," in which the Federal Government agrees to pay a specified percentage of the total amount expended under the Medicaid plan submitted by the State and approved by the Secretary. Id.

The Act "authorize[s] to be appropriated for each fiscal year a sum sufficient to carry out [its] purposes. . . ." 42 U.S.C. § 1396. The Act provides that the federal government will share the

cost of "medical assistance" and "rehabilitation and other services to help [eligible individuals] attain or retain capability for independence or self-care . . . ." Id.

To qualify for federal Medicaid grants, a State is required to submit a "state plan for medical assistance" to the Secretary. 42 U.S.C. §§ 1396a(a) and 1396b(1). The plan sets forth, among other things, standards of eligibility and descriptions of covered services. Upon the approval of a state plan, the Secretary must pay the federal share of covered services to the state. 42 U.S.C. § 1396b; Pet. App. 9a.[1/]

1/ The Medicaid Act defines "medical assistance" to mean, among other things, "payment of part or all of the cost of

(footnote continued)

The Secretary's principal powers of oversight under the Medicaid Act are two: (1) the disallowance of reimbursement for specific State expenditures, and (2) the determination that a State plan, or its administration of its plan, fails to comply with the Act. See 42 U.S.C. §§ 1316, 1396c. Initially these powers were seen to be distinct. The former power was understood to be retroactive and narrowly focused, and to involve mainly technical audit issues. The latter power was understood to be prospec-

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(footnote continued)

. . . intermediate care facility services." 42 U.S.C. § 1396d(b). The court of appeals noted, correctly, that "intermediate care facility services include both 'health' and 'rehabilitative' services." Pet. App. 10a.

tive and to involve important issues of statutory interpretation and policy. Reflecting this understanding, Congress provided for review of compliance decisions directly in the courts of appeals, 42 U.S.C. § 1316(a)(3), but left review of disallowance decisions (following administrative reconsideration, see 42 U.S.C. § 1316(d)),[2/] unspecified. See Commonwealth of Massachusetts v. Departmental Grant Appeals Board, 698 F. 2d 22, 24-26 (1st. Cir. 1983)(and cases

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2/ Section 1316(d) provides as follows: Whenever the Secretary determines that any item or class of items on account of which Federal financial participation is claimed under Title I, X, XIV, XVI, or XIX, of this chapter, or part A of subchapter IV of this Chapter, shall be disallowed for such participation, the State shall be entitled to and upon request shall receive a reconsideration of the disallowance.

collected). However, the disallowance procedure has increasingly been used to establish and enforce against the States the Secretary's view on significant issues of statutory interpretation and policy; and as so used, it has a powerful prospective, coercive effect. See Pet. App. 5a. [3/]

3/ This use of the disallowance power has required the regional courts of appeals to determine whether the States' challenges to disallowance decisions are actually compliance matters reviewable by the courts of appeals, since disallowances often involve important legal questions which are functionally or effectively similar to compliance decisions. See Commonwealth of Mass. v. Dept. Grant Appeals Board, 698 F. 2d at 26-27; New Jersey v. Dept. of HHS, 670 F. 2d 1284 (3d Cir. 1982); Illinois v. Schweiker, 707 F. 2d 273, 276 (7th Cir. 1983).

The Massachusetts Disallowance

Massachusetts first participated in the Medicaid program in 1966. Pet. App. 20a. Its plan for medical assistance has been approved by the Secretary. In accordance with its plan and the Medicaid Act, Massachusetts provides medical and rehabilitative services to eligible mentally retarded citizens who reside at state-owned and operated intermediate care facilities for the mentally retarded (ICF/MR's). Pet. App. 2a.

In 1982 and 1984, the Secretary disallowed reimbursement to Massachusetts for certain services provided to persons under the age of twenty-two years at Massachusetts ICF/MR's during the years 1978-1982. Pet. App. 2a-3a, 10a-11a,

40a, 53a. As the district court noted, the services in question were intended to "enable" the mentally retarded individuals "to achieve some degree of self-care." Pet. App. 26a-27a. The services included training mentally retarded individuals in "signal[ling] for food when . . . ready to eat to prevent aspiration of food into lungs; attending auditory stimulation for two minutes; locating hidden objects; showing preference for certain objects presented; and encouraging social interactions with adults." Pet. App. 26a and n. 7.

The Secretary declined to share the cost of these services. He did not find that Massachusetts had not provided the services, or that it had requested or received excess reimbursement. Rather,

the Secretary claimed that these services are not covered by Title XIX. He asserted that they constitute "education" and thus were ineligible for reimbursement under a regulation which provides that federal Medicaid reimbursement "may not include reimbursement for vocational training and educational activities." 42 C.F.R. § 441.13(b); Pet. App. 2a-3a, 10a-11a, 40a, 53a.

Massachusetts appealed both disallowances to the Board. Pet. App. 39a-84a. The Commonwealth's appeal did not dispute the proposition that if the services at issue were not covered by Title XIX, they were not reimbursable. Nor did the Commonwealth's appeal present an issue as to whether the services were actually provided, or as to the calculation of the

disputed amount. Rather, the only substantive issue presented to the Board was whether certain medical and rehabilitative services provided to the institutionalized mentally retarded are services covered by Title XIX. Pet. App. 39a-40a, 53a.

The Board heard witnesses, received documentary evidence, and heard argument of counsel. The Board "uph[e]ld" the disallowances, id. at 52a, 84a, and informed Massachusetts that the Board's decision "constitute[d] the final administrative action on this matter." J.A. 18.

Judicial Proceedings

Massachusetts sought review of the two decisions of the Board in the United States District Court for the District of Massachusetts. Pet. App. 89a-94a; 95a-99a. Each complaint sought "judicial review of a final decision" of the Board, Pet. App. 89a, 95a, and "declaratory and injunctive relief pursuant to 5 U.S.C. §§ 702, 703, and 28 U.S.C. § 2201, to determine the rights and obligations of the Commonwealth under the Medicaid program and to prevent the wrongful withholding of federal reimbursement." Pet. App. 90a, 96a.

The complaints invoked the subject matter jurisdiction of the district court under 28 U.S.C. § 1331, Pet. App. 90a,

96a, and alleged that the United States had "waived its immunity by 5 U.S.C. § 702." Id. at 90a, 96a. The Commonwealth claimed to be a "party aggrieved by the decision of the Board," and named as defendants, inter alia, "members of the panel of the Board which rendered the decision. . . ." Id. at 90a, 96a.

The body of each complaint described the Medicaid Act and the administrative proceedings which had preceded the two final decisions of the Board. Pet. App. 91a-92a, 97a-98a. The Commonwealth's claims included the familiar grounds for reversal of final federal agency action contained in 5 U.S.C. § 706: the complaint alleged that the Board's decisions were "based on errors of law", "arbitrary and capricious", "in excess of statutory authority", and "unsupported by substan-

tial evidence." Pet. App. 92a-93a, 98a. The prayers requested that the district court:

> 1. Enjoin the Secretary and the Administrator from failing or refusing to reimburse the Commonwealth, or from recovering from the Commonwealth, the federal share of expenditures for medical assistance to eligible residents of intermediate care facilities for the mentally retarded.
>
> 2. Set aside the Board's decision.
>
> 3. Grant such declaratory and other relief as the Court deems just.

Pet. App. 93a-94a, 98a-99a.

The Secretary answered the first complaint and asserted as a "defense" that the Board's decision was "supported by substantial evidence." (October 28, 1983); see J.A. 11, 28. He then filed a "Memorandum Concerning Subject Matter Jurisdiction." J.A. 19-22. In his memo-

randum the Secretary stated that "[a]s a matter of policy, HHS has decided not to press the defense of lack of jurisdiction in this action." J.A. 20.[4/] The dis-

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4/ The Secretary's explicit waiver of the jurisdictional issue in the district court (December 24, 1983, J.A. 20), was closely related to his representation to the First Circuit in an earlier case, Massachusetts v. Departmental Grant Appeals Board, 698 F. 2d 22, 26 (1st Cir. January 12, 1983)(holding that a petition for review under 42 U.S.C. § 1316(a)(3) actually concerned a disallowance, not a compliance matter), that he would not contest the district court's jurisdiction to review a disallowance decision. See Connecticut Dept. of Income Maintenance v. Heckler, 471 U.S. 524, 528 n. 8 (1985) (state had simultaneously sought review of a Board decision in both circuit and district courts). District Judge Garrity heard both Medicaid disallowance cases, and the Secretary advised the district court almost simultaneously in the two cases that he did not dispute its jurisdiction. See Massachusetts v. Heckler, 576 F. Supp. 1565, 1567 (D. Mass.), rev'd on other grounds, 749 F. 2d 89 (1st Cir. 1984), cert. denied, 472 U.S. 1017 (1985)

(footnote continued)

trict court nevertheless considered the question, since it was obliquely presented by the Secretary's advice, and ruled that it had jurisdiction. Pet. App. 37a-38a.

The Secretary and the Commonwealth filed cross-motions for summary judgment. J.A. 23-26. The Commonwealth moved the district court "to grant summary judgment in its favor and reverse the decision of the [Board]." Id. at 23. The Secretary moved the district court to "enter an Order affirming the decision of the [Board]." Id. at 25.

(footnote continued)

Thus, the Secretary has not simply changed his mind on this question; he has repudiated express representations both to the district court and to the court of appeals in this and a related case.

The district court granted summary judgment for Massachusetts, (Pet. App. 17a-31a), and entered a judgment that simply stated that the disallowance "is reversed." Id. at 32a. The district court entered neither an injunction nor a money judgment awarding damages.

On appeal to the First Circuit, the Secretary argued for the first time that the district court lacked subject matter jurisdiction. The court of appeals affirmed on the merits but vacated and remanded in part. The court determined that the district court could review the Secretary's decision and grant injunctive and declaratory relief since this "grant-in-aid dispute" has a "significant, prospective effect on the ongoing relationship between the federal agency and the affected state[.]" Pet. App. 5a. The

issue presented by the Commonwealth concerned the "scope of the Medicaid program, not just how many dollars Massachusetts should have received in any particular year." Pet. App. 5a. The court of appeals also hypothesized, however, that "[s]hould the Secretary persist in witholding reimbursement for reasons inconsistent with our decision, the Commonwealth's remedy would be a suit for money past due under the Tucker Act in the Claims Court[,]" where the doctrine of collateral estoppel would apply. Pet. App. 6a-7a. Thus the court of appeals addressed an issue not present in the case and held in substance that while the district court "had jurisdiction to review the disallowance decision of the Grant Appeals Board and to grant declara-

tory and injunctive relief," it could not "order the Secretary to pay the money." Pet. App. 6a. The court of appeals concluded that "the district court should send the case back to the Secretary for action consistent with the Medicaid Act as interpreted in this decision." Pet. App. 6a.

SUMMARY OF ARGUMENT

I.A. The nature of this case and the Secretary's decision demonstrate that the district court had jurisdiction. The Commonwealth's complaint is in its essence a suit for judicial review, and the judgment entered by the district court (reversal of the Secretary's decision denying Medicaid reimbursement)(Pet. App. 32a) was the only relief necessary

to accomplish the purpose of the suit. Whether or not the district court could enter a "money judgment" as such (a form of relief never sought by the Commonwealth nor entered by any court in this case), it was clearly empowered to "set aside" the decision of the Board under 5 U.S.C. § 706.

The jurisdiction of the district court is also supported by the nature of the Medicaid program and the Secretary's decision. The Secretary is a partner in a cooperative effort to provide vitally important services to needy people. Through the use of his disallowance power, however, the Secretary implements policies governing ongoing programs which can often result in the termination of services. For these reasons, Congress

intended to direct the important questions presented by Medicaid disallowances to the district courts and regional courts of appeals.

I.B. The broad waiver of sovereign immunity contained in the APA encompasses the Commonwealth's complaint for judicial review. The legislative history of the 1976 amendments and decisions of this Court demonstrate that the APA covers a broad range of actions seeking judicial review, including cases involving grant-in-aid programs. Relying upon these authorities, the federal courts have consistently held that, in a challenge to a Medicaid disallowance, a district court has jurisdiction notwithstanding that such judicial review might result in disbursement from the federal treasury.

Contrary to the Secretary's arguments, no other provision of the APA forecloses district court jurisdiction in this case. This case is a suit for judicial review, not "money damages." 5 U.S.C. § 702. The Secretary's mischaracterization is inconsistent with his apparent concession that actions which seek only review and relief as to future Medicaid services (while waiving rights to reimbursement for past periods) are not suits for "money damages," and are within the jurisdiction of the district courts. Neither logic nor the legislative history of the APA support this distinction. Indeed, the lengthy exerpts of the legislative history of the APA cited by the Secretary, in his effort to equate "money damages" with "monetary relief," are

beside the point because this action is in its essence one for nonmonetary relief. Furthermore, this Court has previously stated that "reimbursements" under a similar program are not "damages."

Nor is district court jurisdiction foreclosed by 5 U.S.C. § 704. Even assuming that some portion of this action is cognizable under the Tucker Act, the available remedies in the Claims Court are, by the Secretary's concession, inadequate in grant-in-aid cases, which affect vital services to needy persons and present important questions of statutory interpretation and social policy.

I.C. The APA and the Tucker Act should be construed so as to fit this case into the entire system of remedies

against the Government. The language and legislative history of related portions of the Social Security Act (SSA) and the Federal Courts Improvement Act of 1982 (FCIA) support district court jurisdiction of this case. The SSA and the FCIA demonstrate long-term and prevailing Congressional intent to vest power to review agency action under Title XIX and other titles of the SSA in the district courts and the regional courts of appeals, and to limit the creation and jurisdiction of "specialized" courts, particularly those created by the FCIA.

The district and circuit courts have developed substantial experience deciding cases involving grant-in-aid programs under the SSA and other statutes. In the Medicaid Act itself, Congress has authorized review in the courts of ap-

peals of closely-related "compliance" disputes between the States and the Secretary. Given this grant of authority, and the similarity of the legal questions presented by "compliance" and "disallowance" disputes, it is inconceivable that Congress intended review of disallowance matters in the Claims Court.

If the Congress that enacted the FCIA in 1982 believed that the Court of Claims already had jurisdiction to review scores of types of agency decisions, including those made in grant-in-aid programs under the Social Security Act, Congressional debate regarding specialized courts would have been pointless. Furthermore, by the time of the enactment of the FCIA, the lower courts had already determined the jurisdiction of the district courts over

Medicaid disallowances, and Congress in the FCIA expressed no dissatisfaction with those decisions.

Finally, it is reasonable to infer that the FICA preserved district and regional court of appeals review of cases such as the Commonwealth's because Congress was aware of (1) the inconvenience to needy persons and the States of litigating in the Claims Court, and (2) the expertise in the subject matter already developed by the district and regional courts of appeals.

II. A. The Secretary argues that if any aspect of the Commonwealth's case is within the jurisdiction of the Claims Court under the Tucker Act, then the district court lacks jurisdiction over the entire action, and, accordingly, the

court of appeals erred in concluding that such a case could be "bifurcated." This argument assumes that this case may be brought under the Tucker Act. But according to the Secretary, the term "money damages" in the APA also defines the limits of Tucker Act jurisdiction in the Claims Court, and we have shown that the Commonwealth's case is not one for "money damages." Alternatively, the Secretary's argument fails because, under the decisions of this Court, there is no cognizable "claim" under the Tucker Act unless a federal law mandates compensation for damages sustained. The Medicaid Act is not such a law. In arguing to the contrary, the Secretary has abandoned his statutory role as a partner in providing services to needy persons for a new role

as a paymaster. The Secretary's new incarnation cannot transform the federal share of reimbursement for services into "damages sustained" by a State and cognizable under the Tucker Act.

II. B. Finally, even assuming that the district court lacks jurisdiction over some aspect of a disallowance dispute, the Tucker Act does not deprive the district court of jurisdiction to review the Secretary's action, interpret applicable statutes and regulations, and grant appropriate declaratory and injunctive relief. If "bifurcation of claims" were to result, it would represent an inevitable and tolerable by-product of the relationship between the APA and the Tucker Act. Since the Secretary concedes that the district court has jurisdiction

to review disallowances upon a waiver of a claim for "money past-due," his concern for claim-splitting reduces to a policy concern best directed to Congress, not the Court.

ARGUMENT

I. DISTRICT COURT REVIEW OF THE FINAL DECISION OF THE SECRETARY TO DENY MEDICAID REIMBURSEMENT IS AUTHORIZED BY THE ADMINISTRATIVE PROCEDURE ACT.

A. The Nature of this Case and the Decision of the Secretary to be Reviewed Support District Court Jurisdiction.

1. The very nature of this case and the Secretary's decision demonstrate that the district court had jurisdiction. See Block v. Community Nutrition Institute, 467 U.S. 340, 345 (1984)(Congressional intent as to judicial review to be discerned from "the nature of the administrative action involved"). The Commonwealth's complaint is in its essence a suit for judicial review, and reversal of the Board's decision is the

only relief necessary to accomplish the purpose of the suit.

The case arose because of a specific, adjudicatory decision of the Grant Appeals Board, which held that certain services provided to the mentally retarded were not covered by Medicaid. In the district court, the Commonwealth sought review of the substantive validity of the Board's decision. The Commonwealth prayed the court to "set aside agency action," 5 U.S.C. § 706, the relief "characteristically provided" under administrative law. See United States v. Mottaz, 476 U.S. 834, 850 (1986). In fact, the Commonwealth sought the same review sought in similar grant contexts, where this Court has stated that "[in]

reviewing a determination . . . that a State has misused [federal] funds, a court should consider whether the findings are supported by substantial evidence and reflect an application of the proper legal standards." Bennett v. Kentucky Department of Education, 470 U.S. 656, 666 (1985)(citations omitted).

Because the Commonwealth's case was an action for judicial review, and not a claim for "money past due" or a "money judgment," an order "setting aside" the Board's decision would have provided the Commonwealth full relief. The Commonwealth (and the courts below) assumed that the Secretary would abide by the terms of the remand. Whether or not the district court could enter a money judgment as such (a form of relief never sought by the Commonwealth nor entered

by any court in this case), it was clearly empowered to "set aside" the decision of the Board, and to enforce that decision if the Secretary refused to abide by it.

The court of appeals agreed that the district court had the authority "to review the disallowance decision . . . and to grant declaratory and injunctive relief," Pet. App. 6a, and remanded the case to the Secretary for application of its interpretation of the Medicaid Act to the facts of this case. Pet. App. 7a n. 2, 16a. The Secretary does not directly contest the authority of the district court to reverse and remand. Sec. Br. at 12 n. 6. This is important because this disposition provided all of the relief necessary to accomplish the object of the Commonwealth's case. See

Sec. Br. at 15 n. 11. Upon remand, the Secretary (and the Board) are obliged to follow the interpretation of the Medicaid Act determined by the district court and affirmed by the court of appeals. Thus the authority of the district court invoked by the Commonwealth is that traditionally exercised in district court review of agency action.

Contrary to the opinion of the court of appeals, the Commonwealth neither sought nor obtained a "money judgment." Pet. App. 16a. It is true that the district court's opinion (as distinguished from its judgment) specifies relief that could be read as broader than necessary to grant the Commonwealth complete relief, see Pet. App. at 31a, but it does not need to be decided in this case

whether a State may obtain a judgment, broader than reversal, which finally determines that a service is reimbursable, and which orders the Secretary to make a specific adjustment in the State's grant account.[5/] In the ordinary review of a disallowance, such an order is not necessary to grant complete relief. See Connecticut v. Schweiker, 557 F. Supp. 677, 1091 (D. Conn. 1983)("this Court

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5/ But we note that such a determination is effectively the same thing as a determination that a service is covered by the Medicaid Act and state plan. If the Secretary had been upheld on the merits, the effect would be to deny services to recipients. It would be anomalous to hold that a question which may be litigated by recipents in the district courts may be litigated by the States only in the Claims Court. Apparently the Secretary agrees that the States may litigate in the district court, but he would exact the penalty that the States must waive their right to receive the federal share of past expenditures. Sec. Br. at 15 n. 11, 46.

trusts that HHS . . . will promptly restore any set-off already taken. An injunction is therefore unnecessary."). Certainly the bare possibility that the Secretary will contemn the judgment should not defeat the Court's jurisdiction to render it. In any event, in this case, the Court need only determine that the district court has jurisdiction to review and reverse a grant disallowance.

2. The authority of the district court under the Administrative Procedure Act is also supported by the nature of the Medicaid program and the Secretary's decision. Grant-in-aid programs to state and local governments represent the predominant portion of federal grant programs. The programs covered by such grants have increased in number and subject in the past twenty-five years.

See 1987 Statistical Abstract of the United States, Table Nos. 435-437.

"[F]ederal grant programs originate in and remain governed by statutory provisions expressing the judgment of Congress concerning desirable public policy." Bennett v. Kentucky Dept. of Education, 470 U.S. at 669. Disputes under the various programs often require the interpretation of extensive and complex statutes and federal regulations and present difficult public law questions of widespread interest and impact.6/

6/ In fact, the growth of these programs and the increase in federal-state disputes led Congress in 1974 to enact the Federal Grant and Cooperative Agreement Act, P.L. 95-224, 92 Stat. 3. The Act was intended to "distinguish federal assistance relationships from federal procurement relationships. . . ." Sec. 2(a); S. Rep. No . 93-1239, 93d Cong., 2d Sess. at 1, 3, 5, 9.

In the Medicaid program, the Secretary has asserted that his disallowance power extends beyond the offset of past overpayments against current payments, or similar routine adjustments. Such offsets would be a usual feature of a grant program. See, e.g., 2 R. Capalli, Federal Grants and Cooperative Agreements, §§ 8.13-8.16 (1982). The Secretary, however, claims the power to make a unilateral determination in a disallowance proceeding that a particular class of expenditure was not and is not in the future reimbursable. Thus, in these and previous disallowances, the Secretary has relied on section 1396(d) to disallow reimbursement for expenditures made in accordance with a state plan, on the

basis of his post hoc interpretations of Title XIX or HHS regulations.

The important policy implications of the Secretary's disallowances were evident to the court of appeals. Pet. App. 4a. The court noted that the "Secretary uses these decisions to implement important policies governing ongoing programs," and that a disallowance is a "statement of law governing the ongoing relationship between the Commonwealth and HHS." Id. at 4a, 5a. The Grant Appeals Board concurred in this view. Id. at 81a-82a ("Significant legal questions . . . can arise from disallowances based on audits.").

Thus the Secretary's decision may, and in this case does, have wide legal and human effect. As we demonstrate

below in Point I, B, Congress intended to direct these important questions to the district courts and regional courts of appeals.

3. The Secretary's brief ignores the nature of grant programs and disallowances, and mischaracterizes the relief which the Commonwealth sought and obtained. The Secretary erroneously claims that it is the Commonwealth's "view" that "the APA's waiver of sovereign immunity is broad enough to encompass both its claims for prospective relief and its claims for past-due money from the United States." Sec. Br. at 9. The Secretary essentially argues that any complaint which may incidentally require the disbursement of federal funds is a "claim against the United States" cognizable

only under the Tucker Act, 28 U.S.C. § 1491. The Secretary repeatedly claims that this is in essence an action simply to "enjoin" the payment of money. E.g., Sec. Br. at 9, 12, 21.

These are mischaracterizations of the Commonwealth's case. The Commonwealth neither makes a "claim" nor seeks a money judgment. It seeks reversal of an administrative decision.

To be sure, that remedy may have fiscal consequences. Any ultimate cost to the United States, however, is incidental to the relief sought in the petition for judicial review. Congress intended that jurisdiction depend on the essence of the final agency action and the nature of the review sought. Massachusetts alleges that the Secretary has made an unlawful decision, after an

adjudicatory proceeding, which has significance apart from the money involved in the period at issue. The fact that, under the Secretary's regulations, reimbursement ultimately may follow from the decision of the court does not deprive the district court of jurisdiction, because the Commonwealth did not seek a money judgment. So long as the complaint may be objectively read to be in essence a request for judicial review of an agency decision of this type, the district court has jurisdiction whether or not there could be incidental fiscal consequences.

This jurisdictional rule is no different from those applied by the federal courts to resolve other questions as to the respective jurisdictions of the

district court and the Claims Court. For example, when a court determines whether a claim is one "founded upon" a contract for purposes of the Tucker Act, the court examines "the source of the rights upon which plaintiff bases its claims, and upon the type of relief sought (or appropriate)." Spectrum Leasing Corp. v. United States, 764 F. 2d 891, 893 (D.C. Cir. 1985), quoting Megapulse, Inc. v. Lewis, 672 F. 2d 959, 968 (D.C. Cir. 1982). "A court will not find that a particular claim is one contractually based merely because resolution of that claim requires some reference to a contract." Spectrum Leasing Corp., 764 F. 2d at 893 (emphasis original). Similarly, this Court should not characterize this action as a "claim against the United States," or one for

"money past-due," merely because the action involves an identifiable amount of money. Indeed, unlike the contract cases cited above, resolution of this disallowance dispute does not require any "reference" to the money involved. Id.

The Secretary implies that these propositions, if accepted, will encourage "artful pleading" designed to mask "claims for money" as petitions for judicial review. See Sec. Br. at 18 n. 15, 22-23.[7/] The Commonwealth does not wish to encourage "artful pleading. "However, an objective assessment

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7/ There is an element of inconsistency in this position. The Secretary's Question Presented and portions of his argument repeatedly isolate one word ("enjoin")(Pet. App. 93a, 98a) from the Commonwealth's complaint to "prove" the

(footnote continued)

of this case by a court need not depend solely upon the form of the complaint. A challenge to an agency disallowance in the district court has a foundation in administrative law that is evident from an objective reading of the complaint and the nature of the agency decision under review.[8/]

(footnote continued)

alleged jurisdictional flaw in the entire action, while ignoring the essence of the Commonwealth's complaint. E.g., Sec. Br. at 4, 5, 12, 21. Elsewhere, however, the Secretary warns of the dangers of permitting jurisdiction to turn on "artful pleading." E.g., Sec. Br. at 22-23.

8/ This test is actually of the same type as that of the Fifth Circuit, (apparently endorsed by the Secretary) which determines whether an action is "in essence" one for "money damages." Amoco v. Hodel, 815 F.2d 352, 362 (1987).

B. The APA's Broad Waiver of Sovereign Immunity Encompasses the Commonwealth's Complaint for Judicial Review.

The language, legislative history, and purpose of the APA all support the jurisdiction of the district court over this case.

1. Section 702 Waives Sovereign Immunity for a Broad Range of Agency Action, Including Grant Disallowances.

The Administrative Procedure Act (5 U.S.C. §§ 701-706)(the APA) does not itself create subject-matter jurisdiction. Califano v. Sanders, 430 U.S. 99, 107 (1977). However, it supplies a general cause of action in favor of persons

aggrieved by final agency action. See Block v. Community Nutrition Institute, 467 U.S. 340, 345 (1984).

Section 702 of the APA provides that a "person suffering legal wrong because of agency action, or adversely affected or aggrieved by agency action within the meaning of a relevant statute, is entitled to judicial review thereof." In previous administrative cases decided by the Court, in which an organic statute was silent on the subject of judicial review, the Court has applied a presumption that review is available in the district courts. See, e.g., Abbott Laboratories v. Gardner, 387 U.S. 136, 140 (1967); 5 U.S.C. §§ 701(a), 702, 704. In such cases the Court has held that in the absence of any indication in a statute that the agency decision is

committed wholly to its discretion, or that review is otherwise precluded (see 5 U.S.C. § 701(a)), the decision is subject to judicial review in the district courts under 5 U.S.C. §§ 701-706. See, e.g., Bowen v. Michigan Academy of Family Physicians, 467 U.S. 667 (1986).

These holdings rest on the policies underlying the Administrative Procedure Act. "[T]he legislative material elucidating that seminal act manifests a congressional intention [to] cover a broad spectrum of administrative action[.]" Abbott Laboratories v. Gardner, 387 U.S. at 140. Relying in part upon Abbott Laboratories, the Court has observed in dicta, in a case involving a grant-in-aid program similar to Medicaid, that the district court has

jurisdiction over a State's challenge to a disallowance "under the general grant of jurisdiction over cases involving federal questions, 28 U.S.C. § 1331 (1976 ed., Supp. V)." Bell v. New Jersey, 461 U.S. 773, 777-8 n. 3 and 792 (1983)(disallowance under the Elementary and Secondary Education Act of 1965), citing K. Davis, Administrative Law § 23.5, p. 135 (2d ed. 1983); C. Wright, Law of the Federal Courts § 103 (3d ed. 1976).

As early as 1975, one court of appeals considered the text, legislative history, and policy of 42 U.S.C. § 1316(d), and ruled that Medicaid disallowances were reviewable in the district courts. County of Alameda v.

Weinberger, 520 F. 2d 344, 347-9 (9th Cir. 1975).[9/] Since Alameda, the lower federal courts have applied the same analysis and overwhelmingly concluded that judicial review of Medicaid disallowances is available in the district courts. Illinois v. Schweiker, 707 F. 2d 273, 275-277 (7th Cir. 1983); Connecticut v. Schweiker, 557 F. Supp. 1077, 1079 (D. Conn. 1983), reversed on other grounds, Connecticut v. Heckler, 731 F. 2d 1052, 1055 (2nd Cir. 1984)(district court has jurisdiction under APA), aff'd, Connecticut v. Heckler, 471 U.S. 524 (1985)(no mention of a jurisdictional defect); Colorado

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9/ County of Alameda expressly limited its holding to the circumstance in which the [federal] agency had already used "self-help setoff procedures" to collect the amount disallowed. 520 F. 2d at 349 n. 11.

Dept. of Social Services v. HHS, 558 F. Supp. 337, 347-48 (D. Colo. 1983), aff'd, 771 F. 2d 1422 (10th Cir. 1985); State of Georgia v. Califano, 446 F. Supp. 404 (N.D. Ga. 1977); Michigan v. Secretary of Health and Human Services, 563 F. Supp. 797 (W.D. Mich. 1983), aff'd, 744 F. 2d 32, 35 (6th Cir. 1984)(district court has jurisdiction to review disallowance claims); Oregon Department of Human Resources v. Dept. of Health and Human Services, 727 F. 2d 1411, 1414 (9th Cir. 1983)(following County of Alameda) (Secretary concedes jurisdiction).[10/]

10/ In Minnesota v. Heckler, 718 F. 2d 852, 857-860 (8th Cir. 1983), the Eighth Circuit ruled that while declaratory relief was available in the district court, and while the district court may review decisions of the Grant Appeals Board, it may not enter a judgment in damages or an injunction having the same effect. Thus the Eighth Circuit's decision resembles that of the court of appeals in this case.

Contrary to the assertion of the Secretary (Memor. of Cross-Resp. at 4), lower court decisions finding district court jurisdiction include cases where the Secretary raised or the court considered the Tucker Act as a possible bar to its jurisdiction. See, e.g., Maryland v. Department of Health and Human Services, 763 F. 2d 1441, 1445-51 (D.C. Cir. 1985)(disallowance under Title XX of the Social Security Act reviewable in district court; Tucker Act does not apply or otherwise preclude district court jurisdiction); Delaware Div. of Health v. U.S. Department of Health and Human Services, 665 F. Supp. 1104 (D. Del. 1987) (district court, not Claims Court, has jurisdiction over Medicaid disallowance); Virginia v. Bowen, No. 84-1171-R (W.D. Va. February 3, 1988)(same).

These decisions of the lower courts are supported by the legislative history of section 702. In 1976, Congress amended section 702 to waive the defense of sovereign immunity "in all equitable actions for specific relief" and eliminated the amount-in controversy requirement of 28 U.S.C. § 1331 for actions against the United States and federal officials. H.R. Rep. 94-1656, 94th Cong., 2d Sess. 9 (1976); Pub. L. No. 94-574, 90 Stat. 2721 (1976). The Senate report noted that in enacting earlier statutes such as the Tucker Act, Congress had already "made great strides toward establishing monetary liability on the part of the Government for wrongs committed against its citizens. . . ." S. Rep. No. 94-996, 94th Cong. 2d Sess. (1976) at 3 (emphasis added). Reform

was needed, however, for other kinds of cases challenging agency action. "These actions usually take the form of a suit for injunctive, declaratory or mandamus relief against a named federal officer on the theory he is exceeding his legal authority." S. Rep. 94-996 at 4.

The 1976 House and Senate reports specifically state that the APA amendments were intended to authorize judicial review in cases previously blocked by sovereign immunity, including cases involving the "administration of Federal grant-in-aid programs." H.R. Rep. No. 1656, 94th Cong., 2d Sess. 1, 9; S. Rep. No. 94-996 at 8.

These aspects of the legislative history of § 702 demonstrate that Congress intended district court review of cases such as grant-in-aid disallow-

ances. If cases involving the "administration of federal grant-in-aid programs" were already cognizable under the Tucker Act in 1976, there would have been no reason to identify those cases as an object of the 1976 APA amendments.[11/] Further, the 1976 elimination of the amount in controversy requirement in 28 U.S.C. § 1331 ensured that any actions for which immunity was waived by § 702 could proceed in

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11/ Contrary to the Secretary's assertion the cases cited in the House and Senate reports as the kind of cases which it was the purpose of the APA to permit ultimately sought disbursement of grant funds by alleging unlawful agency action. Dermott Special School District v. Gardner, 278 F. Supp. 687, 690 (E.D. Ark. 1968); Lee County Special School Dist. No. 1 v. Gardner, 263 F. Supp. 26, 30 (D. S.C. 1967). Furthermore, at the time of the 1976 amendments to the APA, Richardson v. Morris, 409 U.S. 464 (1973)(per curiam), had already held that a suit for equitable relief against the administration of a Social Security Act program was not cognizable under the Tucker Act.

the district court under federal question jurisdiction. See Davis, Administrative Law Treatise, § 23.-03-1 at 373 (Supp. 1982) (provision in APA Section 703 for review in "court of competent jurisdiction" means, in absence of contrary statute, review in district court). The legislative history of the repeal of the amount in controversy requirement identifies examples of cases otherwise cognizable in the district court which failed for lack of a sufficient amount in controversy. S. Rep. 94-996 at 12-13. Those cases included suits where plaintiff "claim[ed] that he was entitled to a federal grant or benefit such as federal employment or welfare. . . ." Id. at 13 (footnotes omitted). Thus, the legislative history

of the APA demonstrates that Congress intended that the district courts review disputes under federal grant programs such as Medicaid, notwithstanding that such review might result in disbursement from the federal treasury.

2. The Commonwealth's Case is for Judicial Review, Not "Money Damages."

The Secretary asserts that the Commonwealth's action is outside the APA's waiver of sovereign immunity because it is a suit for "money damages." Sec. Br. at 24-34. This argument is refuted by the nature of this case. See Point I, A, supra. The Secretary's claim is also refuted by the nature of the system of federal funding used in the Medicaid program and common to many federal grant programs. Before

turning to this second point, however, we note that the Secretary's definition of the term "money damages," which equates the term with the jurisdictional reach of the Tucker Act, would allow the Court to decide that the term "money damages" does not apply in this case if the Court decides that the case is not cognizable under the Tucker Act. The Secretary argues that "money damages" is a "shorthand phrase that this Court has often used -- interchangeably with other phrases describing monetary recoveries -- to describe the limitations, inferred from legislative context, on the jurisdiction conferred by the Tucker Act." (Br. at 18-19) (citations omitted). If this is so, and the Court accepts the argument that the Tucker Act does not encompass this case (Point II, A,

infra), then the term "money damages" used in § 702 cannot exclude the Commonwealth's case from that section's waiver of sovereign immunity. Alternatively, the Court should determine that the legislative history of the APA and the nature of the Medicaid program demonstrate that the Commonwealth's case is not one for "money damages."

The Secretary argues that the Congress which added the term "money damages" to the APA intended the term to apply to all actions "for monetary relief." Sec. Br. at 24-34.[12/]

12/ The Secretary relies extensively on excerpts from the hearings on the amendments to the APA, and law review articles which the Secretary claims provided the impetus for those amendments. Testimony at hearings and other submissions to Congress ordinarily provide limited guidance in discerning

(footnote continued)

According to the Secretary, an action seeking review of a Medicaid disallowance is an action for "monetary relief." However, even if the term "money damages" includes actions for "monetary relief," both terms only describe actions which in their essence seek money judgments.

The Commonwealth does not seek a money judgment or "monetary relief." It seeks judicial review and reversal of an unlawful agency decision. The Secretary apparently concedes that actions which

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(footnote continued)

legislative intent. See Ernst & Ernst v. Hochfelder, 425 U.S. 185, 203-204 n. 24 (1976); Kelly v. Robinson, No. 85-1033 (November 12, 1986), slip. op. at 13-14 n. 13. Even articles and testimony cited by the legislative reports stand at least one step removed from the actual words of Congress, and where, as here, there is an interpretation of the statute that produces a more sensible result, such statements are easily outweighed.